

MEETING OF THE BOARD OF CREDIT UNION ADVISORS

July 31, 2012

1:00 pm

Utah Department of Financial Institutions
324 South State Street, Suite 201
Salt Lake City Utah

Minutes

BOARD MEMBERS PRESENT:

Brenda Van Hoorn, Scot Baumgartner, and Dean Hirabayashi. Arleen Childs is excused.

DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:

Ed Leary, Orla Beth Peck, Eva Rees, Bryan Farnsworth, James Merz, Drew Clarke, Jared Crowford, Camron Selby, Tina Farrell, Teri Remington, Kathryn Causey, and Sonja Long

OTHERS PRESENT:

Heather Line from Utah Credit Union Association.

1. Call meeting to order – Dean Hirabayashi

2. Minutes

Scot had a correction on page 3; he asked the question in paragraph 4 under section 6. Commissioner Leary asked that the league's name be noted correctly.

Dean asked for a motion to approve the corrected minutes, Scot made the motion, Brenda seconded the motion. It was unanimous.

The minutes from the January meeting were also reviewed and Scot made the motion to accept the motion, Brenda seconded that motion. It was unanimous.

3. Introduction of new examiners – Commissioner Leary

Each of the examiners introduced themselves and gave a brief overview of their background.

4. NCUA Assessment affecting Utah Credit Unions – Dean Hirabayashi

Dean said with the 9.5 basis points that NCUA announced, he has seen some statistics as to what it will do credit unions as a whole, the number of credit unions that will go down to PCA. He just wanted to know if the department had any information on the effects it would have on Utah credit unions. Orla Beth said that 9.5 was certainly a decrease from what the rate was last year. Last year the NCUA also charged a premium on the insurance fund on top of that. She doesn't think that they are planning that for this year, so that is going to be a decrease from what credit unions were hit with last couple of years. One of the difficulties is the NCUA did not seem to want or encourage credit unions to accrue for that expense. She feels like things are looking up for credit unions. She thinks that the worst of the corporate stabilization expense is behind us. NCUA kind of front loaded that. The NCUA also won a couple of settlements from the ratings services and that is helping mitigate those losses.

Dean said that he read that one of the lawsuits that NCUA had filed had been appealed and NCUA won the right to go forward with the lawsuit.

5. Recent Conferences – Orla Beth Peck

Orla Beth attended in June the ICURN annual meeting in Toronto. ICURN is the International Credit Union Regulator's Network. She was the representative of state system. There were 40 countries represented. It was very interesting coming from a regulatory system that has been in place for a long time and talking with regulators coming from Ireland and other South American countries that are now being brought under the regulatory system for the first time. That is presenting some challenges for those regulators.

She just returned from the World Council of Credit Unions meeting in Gdansk Poland. That was also very interesting experience. There were just shy of 1,400 credit union presidents and board members from all over the world that attended. She moderated a panel on risk. She talked about some of the speakers and issues that were discussed at this conference.

6. PEARLS vs CAMELS – Orla Beth Peck

She gave a handout on the PEARLS monitoring system. The World Council developed the PEARLS system it is more for management. CAMELS was developed by regulators in the US and the World Council found that it didn't translate very well when they tried to use it other countries. They developed PEARLS as a management tool. PEARLS stands for **P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return and cost, **L**iquidity and **S**igns of growth. It measures some things that the CAMEL rating does not measure. They feel that the CAMEL rating fails to evaluate financial structure and growth and was created as a supervisory tool, not as a management tool. The main concern of the CAMEL ratio is to protect the solvency of an institution and the safety of members deposits, not designed as a tool for analysis of all key areas of credit union operations. It goes through the different ratings and gives you a formula to compute it. Some of the measurements that they use for protection, they don't focus on capital it focuses on the allowance account being adequate to cover losses. Their goal is that your allowance account cover 100% of loans over 12 months past due and 35% of all delinquent loans. Orla Beth went through the handout. Brenda VanHoorn asked if Orla Beth saw this as a direction that we would be moving towards. Orla Beth said that she didn't see the regulators moving away from the CAMEL. This is more designed more for management to use.

Orla Beth attended one break out session on FATCA – Foreign Account Tax Compliance Act. It was about a new law about that is being applied to the rest of the world. The rules are still being drafted for this. Right now they have 388 pages of regulation that have been released that are still being modified they need to identify Americans living in other countries. It is a reciprocal information exchange. We are doing it for foreign nationals of about 80 countries here and they are going to do it for Americans earning interest abroad. They are looking for Americans living in the states and having accounts in foreign countries.

7. Other business

Eva said that at the last meeting someone asked about Reg. D, the limitation on six transactions on accounts. She gave a handout of that section of Reg. D that explains the limitation and there is also some examples on how to count them and how not to count them.

Heather asked now that we are more fully staffed is the department going to start doing exams that include compliance. Eva said that we would like to,

but she doesn't see it happening in the short term. She thinks that it might be a year or two down the road.

Scot Baumgartner asked if NCUA is going to come back in again this year on the exams. Orla Beth said that they are not coming in to all of the credit unions like they did last year. They are following up on any of the credit unions that had problems last year. The credit unions that were rated a 3 last year, the NCUA wants to come in and do a 6 month visitation. NASCUS has mandated that NCUA go into every credit union over \$250 million regardless of their condition. She feels that is an inappropriate focus. They should be focusing on those that are having problems. We feel that with a well run credit union you can go every 14 or 15 months, not every 12 months between exams.

Dean Hirabayashi asked about the code book, does the State send that out each year. Commissioner Leary said that the target is October 1, it just depends on the printing. A brief discussion was held about paper copy vs. digital copy. He also asked about the CALL Report instructions and the signature page. The CALL Report is all electronic now, but you can send the signature page to the department.

Dean said that he had gotten an email asking for comments on R331-23. That rule was up for the five-year review. Dean wanted to know if the department had gotten any comments. Orla Beth said that she was not aware of any comments that had come in.

8. Date of upcoming meeting – October 16, 2012 at 1:00 pm

Commissioner Leary is not available on October 16, we can move it to the 17th at 1:00 pm.